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DIA review(s) completed.

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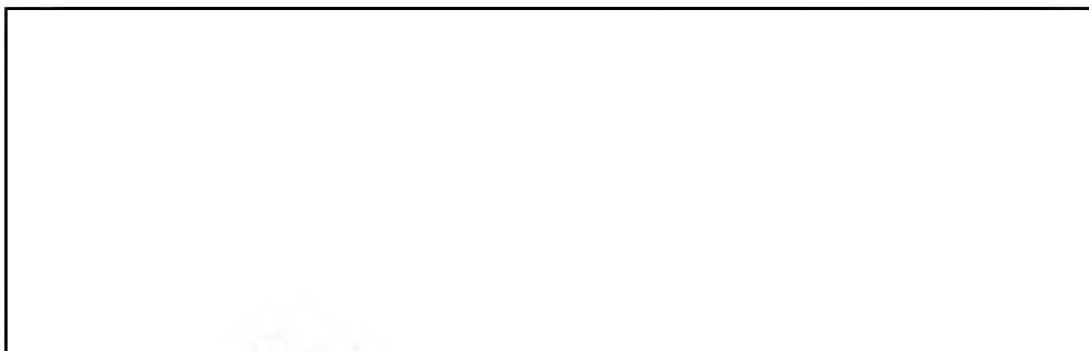
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TURKEY

Following a meeting with President Ford yesterday, Prime Minister Demirel declared that the current suspension of activities at US installations in Turkey would remain in effect "for the time being."

[redacted] prompted him to reject a US offer of \$50 million in military aid as an interim measure. Demirel said it would be contradictory for Turkey to accept such a gift when it is unable to purchase US arms or take delivery of arms already paid for.

The take-over of US installations by the Turkish military has been completed with only minor incidents caused by the confusion of Turkish authorities over how to proceed. [redacted]

[redacted] Ankara is expected to call for US operation of the bases under Turkish administrative control.

Negotiators for the Greek and Turkish Cypriot communities, meanwhile, began another round of intercommunal talks yesterday in Vienna. They are expected to deal primarily with the powers of the central government in the proposed federation. A major breakthrough is unlikely, although the Greek Cypriot side has backed down from its insistence on a strong central government [redacted]

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CHINA

China's leaders, faced with political infighting last year, have turned their attention this year to economic affairs. Most of the directives issued by the party this year deal with economic problems stemming from political disruptions. Peking seems intent on resolving political problems privately, while pushing publicly for programs that will benefit the economy. The prime mover behind this new emphasis on economic development appears to be Premier Chou En-lai.

China is currently on the last leg of a five-year economic plan that will end this year and is drawing up a plan, to begin in 1976, designed to bring China into the "front ranks" of the industrialized nations by the end of the century. Chou En-lai announced this goal himself in a speech to the National People's Congress in January and indicated that the State Council would be drafting long-range plans aimed at this goal.

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The success of the plan depends on several factors. China will have to achieve and maintain over a quarter of a century a greater degree of political stability, from Peking down to the grass roots, than it has had in the last decade. Economic factors, many of which are beyond China's control, can also intervene. The weather, as usual, will affect agriculture, which remains the basis of the Chinese economy. Changes in the world economic situation are likely to have a greater impact on China's economy now that China is more deeply involved in international trade. Moreover, the contentious and still unresolved issues of wages and incentive programs could have a critical effect on worker morale and productivity.

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ROMANIA

Romanian President Ceausescu doubtless sees President Ford's visit this weekend as further evidence of Bucharest's success in carving out a degree of economic and ideological independence from the Soviet Union.

Romanian news media have enthusiastically prepared the way for the presidential talks by lauding US-Romanian relations as an example for all states regardless of differences in size and politics. The current visit is seen as important to the relationship, and Ceausescu clearly hopes to establish the same rapport with President Ford that he had with former President Nixon.

The visit comes on the heels of action in the US Congress opening the way for most-favored-nation tariff status for Romania. Because Romania needs an economic shot in the arm, Ceausescu surely will press for concessionary credits, agricultural aid, and other assistance to facilitate his country's recovery from recent devastating floods.

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Ceausescu is expected to stress the importance of continued, active US involvement in European affairs in the post-summit period. Romania has consistently described the European security summit as merely a first step toward building a lasting peace in Europe, and Ceausescu, with an obvious eye on relations between his country and the USSR, insists that the US has a critical role to play in Europe's future.

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Ceausescu is pleased that Belgrade has been selected as the site of a meeting in 1977 of senior government officials to review progress in implementing the European security agreement. The Romanians think the choice of the Yugoslav capital will focus international attention on the Balkans and deter Soviet meddling in the region.

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PORTUGAL

The government's worries outside Portugal are increasing. According to recent information, the demonstration on Madeira last Sunday by the Popular Democrats calling for increased autonomy for the islands and a reversal of the leftist trends in Portugal attracted an estimated crowd of 25,000. There was also an incident where Popular Democrats stormed the headquarters of an extreme left-wing party, but military troops prevented property damage or violence. Another pro-independence demonstration is being called for Sunday.

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President Costa Gomes—before his departure for Helsinki last night—announced that a new cabinet had been formed. In Helsinki, he said its composition will be announced Saturday.

The delay in the presentation of the cabinet is indicative of the problems Prime Minister Goncalves has faced trying to come up with a government made up of more than Communist sympathizers.

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General Otelo de Carvalho, security chief and member of the new executive triumvirate, has ordered the removal of 13 members of his security troops because of their lack of "discipline, efficiency, and political conscience."

Carvalho's order followed a statement upon his return from Cuba yesterday threatening mass arrests, or executions if necessary, to regain control over the chaotic Portuguese situation. Since the 13 were not charged with conspiracy or plotting against the government, their removal may have been a precautionary measure to discourage potential opposition to the new troika arrangement and cabinet—which is expected to be strongly left wing. Press reports indicate that further purges of dissidents are in the works.

Among the officers removed was Colonel Neves, leader of a commando regiment thought to be composed mainly of soldiers who have reservations about the leftward trend of the government. His removal reportedly has caused some unrest among his followers.

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In view of the continuing acts of violence throughout the country and the reported plans of the Socialists and the center-left Popular Democrats to hold at least two rallies this weekend, such discontent among the security troops is probably causing Carvalho increasing concern.

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SPAIN

The arrest Tuesday in Madrid of a Spanish army major and six captains is apparently another warning to the military to steer clear of political activity.

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A Spanish officer recently estimated that radical groups constitute less than 5 percent of the army's some 200,000 personnel, whereas some 60 percent are largely apolitical and conservative. The latter figure is lower than previous estimates.

Last January, when political associations were legalized, the ministers of the three armed services issued a warning against the impropriety of political activity by members of the armed forces on active duty. The arrest in Barcelona last February of a major and a captain—allegedly for protesting the use of the military in a police role—was another example of the government's determination to head off dissidence in the military.

The government is playing down the arrests. The Spanish military are keeping a tight lid on information concerning the arrested officers, and the press is treating the case with unusual caution. The Interior Ministry has declared that the arrests should not be taken as evidence of serious disturbances. Nevertheless, there are rumors of possible arrests in Barcelona and Seville.

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CANADA

The postponement of a final decision on a replacement for Canada's Argus long-range maritime patrol aircraft in itself is not of major significance, but multiple considerations involved in the purchase could lead to further delays or a substantial modification of the program.

Prime Minister Trudeau has told Parliament that uncertainty over the "industrial consequences" of signing a contract with Lockheed or Boeing prompted the three-month postponement. His statement indicates that government indecision over competing production and technology offset offers by Boeing and Lockheed is the most likely cause for delay. Budget priorities and the currently uncompleted defense review may also have been factors, as well as possible debate over the size of the long-range patrol force.

Some Canadian officials believe a mixed force of long- and short-range aircraft would better suit Canada's needs. This mix would have the advantage of returning the shorter range, but Canadian-built, De Havilland DHC-7 back into the competition for new contracts. It could also reduce the cost of the program and allow modernization of other equipment. On the other hand, it might reduce Canada's ability to meet its current NATO obligation for Atlantic maritime patrol.

Recent statements in the press by the commander of Canada's armed forces air command indicate that he wants to buy 100 fighter aircraft and that the US F-15 is the leading candidate. The general may be lobbying to avoid a commitment to the patrol aircraft program, which could cost as much as \$800 million, until he is sure that sufficient funds are available for fighter modernization. In addition, a tank replacement or refurbishment program, another expensive undertaking, is being considered in the current defense review for the Canadian armed forces in Europe.

Extension of the operational life of the Argus patrol aircraft to 1979 has lessened the urgency of the replacement decision somewhat. The limited capability of the Argus and the danger that budget priorities or other factors will force an overall reduction in the long-range maritime patrol program, however, make an early decision desirable for both Canada and NATO.

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PHILIPPINES-USSR

Manila and Moscow continue to move toward establishing diplomatic relations and a trade agreement. President Marcos recently indicated, however, that a hitch may have developed in the timing of his state visit and that this could set back the timetable.

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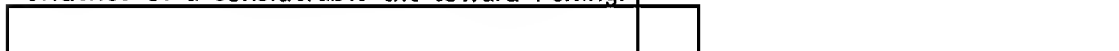
The timing of Marcos' visit could be a problem. The Soviets have already told Manila that August would be inconvenient for a state visit. Most top Soviet officials will be out of the capital on vacation. Marcos has told the US ambassador that if he cannot go in August as he wishes, he will delay the trip until next year. Marcos did not give any convincing reasons why he could not go to Moscow after August, and his comment to the ambassador may have reflected pique at the Soviets. Manila would appear to have little to gain by stalling until next year. The Soviets, for their part, are likely to make a serious effort to accommodate Marcos' desires because they are anxious to have a state visit by a Southeast Asian leader at a time when so many Asian statesmen are making well-publicized trips to China.

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[redacted] Marcos has repeatedly stressed his desire to maintain balanced relations with Peking and Moscow. Postponement of his trip until next year would certainly be regarded by both China and the Soviet Union as evidence of a considerable tilt toward Peking.

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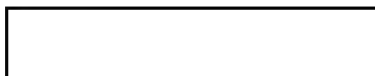
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CHINA

Peking has denounced Soviet motives at Helsinki, a move in keeping with its stance toward the European security conference since talks began in 1972.

The New China News Agency, in a series of recent articles, has castigated the conference and the Soviet Union, charging that Moscow will use the agreement to consolidate its power in Europe and branch out into Southeast Asia. One commentary implied that the Helsinki declaration would not restrain the Soviets from using force, citing the Soviet-led invasion of Czechoslovakia in 1968 and claiming the Kremlin had encouraged India to dismember Pakistan in 1971.

On July 24, *People's Daily* warned that Moscow neither respects nor acknowledges any rights of small- or medium-size countries that would impede Soviet hegemony in the Mediterranean and southern Europe. By way of further belittling the Helsinki conference, the news agency paraphrased President Ford's comment that CSCE is "neither a treaty nor is it legally binding on any participating state." It also cited a statement by the UK's Mrs. Thatcher that "it is both foolish and dangerous to trust the Russians."

Peking has also indirectly denounced Washington, but in milder terms, saving its harshest invective for Moscow. One commentary said that one aim of CSCE is to create a false sense of security and detente in order to cause the Western Alliance to disintegrate and gradually squeeze the US from the area.

China's main concern over CSCE is the effect of European detente on its own security. It believes that with tensions lessening in Europe and an agreement possible on force reductions, the Kremlin will be able to devote more money, military hardware, and manpower to counter China directly. To prevent West European countries from lowering their guard, Peking has continuously warned of Moscow's expansionist nature, military strength, and willingness to sign and break treaties for its own political purposes.

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THAILAND

Prime Minister Khukrit Pramot's government won a key vote on its budget bill in the National Assembly today. It represents the first significant political hurdle of the four-month-old coalition government. The government, however, faces two more votes on the budget before the legislative process is completed.

The odds favor the budget's eventual passage, but Khukrit is leaving nothing to chance. He has threatened to call for new elections if the budget, which calls for significant increases in both social welfare programs and military expenditures, is not approved. Khukrit is also holding out the prospect of a cabinet reshuffle, following passage of the budget, as a means of keeping his sometime unruly coalition in line.

[REDACTED]

The bill, which passed its initial review by a slim majority, now goes to committee for substantive consideration. The lower house is required by the constitution to vote on the budget within 90 days, and the Senate has another 30 days to attach its approval. If these deadlines are not met, the bill is automatically approved. These provisions were included in the new constitution to prevent the assembly from holding the budget ransom to fiscal or political compromise.

[REDACTED]

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THAILAND

The aims of Prime Minister Khukrit's current diplomatic offensive have become even more apparent in the aftermath of his successful trip to the People's Republic of China and subsequent travels to the Philippines and Singapore for meetings with the heads of state. These include:

- ensuring Thai independence through "balance-of-power" diplomacy;
- promoting regional cooperation by strengthening the Association of Southeast Asian Nations;
- enhancing his own image to ensure his continuation in office.

The Prime Minister continues to stress the scaling down of Thai dependence on the US, but he recently commented that he expects the close friendship with Washington to continue. Regarding the Soviet Union, Khukrit praised expanding social and cultural cooperation with the Soviets and said that their interest could be best served by recognizing Thai independence.

To promote regionalism, the Prime Minister, in discussions with other Asian leaders, has actively urged that an ASEAN summit meeting take place soon and has endorsed the removal of all foreign military bases from its area. While visiting the Philippines, Khukrit and President Marcos discussed the need for such a summit as soon as possible. In addition, a joint communique issued by Khukrit and Singapore's Prime Minister Le Kuan Yew at the conclusion of the Thai leader's visit called for an ASEAN summit meeting.

Khukrit's initiatives may prompt an ASEAN summit before the year is out—possibly in December after the UN General Assembly meets. If the current enthusiasm by member nations continues, ASEAN could emerge a stronger regional organization. Whether the ASEAN nations are capable of the cohesiveness necessary to be an effective regional organization, however, remains to be seen.

Regardless of the outcome of Khukrit's diplomatic initiatives, he apparently has been successful in enhancing his image as an international diplomat. Through his accommodations with the military, always a dangerous potential opponent, and his forays into international diplomacy, it would appear that, barring some internal crisis—the debate on the budget might still conceivably provoke such a crisis—his tenure as Prime Minister is relatively secure.

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SINGAPORE

The launching on July 29 of a Seawolf-class missile patrol boat destined for the Royal Thai Navy points up the growing importance of Singapore as an arms producer and exporter.

The boat is one of three ordered by Bangkok and the first of this type built for export. Produced under West German license with Israeli cooperation, the missile boat is identical to six in the Singaporean navy that mount five Israeli-produced Gabriel cruise-missile launchers. Actual delivery may be delayed until 1976, pending missile availability. The Gabriel test-firing scheduled for July 31 from a Singaporean Seawolf was probably arranged to impress Thai naval officials now in Singapore.

Singapore has sold M-16 rifles and ammunition to Thailand, and additional purchases are under negotiation. Weapons sales are complimented by other military cooperation with Bangkok, including a naval exercise and Thai training of Singaporean troops.

The sale of arms to Thailand exemplifies the government's practice of initially producing arms for its own use and then placing the items on the regional market, thereby keeping its weapons industry active and costs competitive. This role as a regional arms supplier, if developed far enough, could give Singapore leverage with neighboring states by making them dependent on Singapore for needed arms, parts, and ammunition.

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FOR THE RECORD

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JAPAN - NORTH VIETNAM: Tokyo expects to conclude an economic assistance agreement with Hanoi this week, clearing the way for an exchange of embassies. Diplomatic relations were established in 1973. The agreement will provide about \$44 million in nonreimbursable aid, although last-minute haggling could change the figure slightly. Tokyo acceded to virtually all of Hanoi's demands for assistance, largely because of Vietnam's new prominence in Southeast Asia. Hanoi is pressing Tokyo for a high-level emissary to sign the agreement, and Japan may send its deputy foreign minister. Provided no last-minute hitches develop in the talks, both sides apparently plan to exchange embassies in late August.

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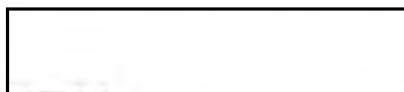


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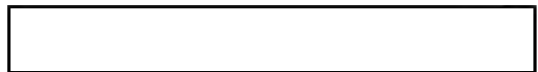
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